

Message Text

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C O R R E C T E D C O P Y (FOR MRN 1196 VICE 196)

E.O. 11652: GDS

TAGS: EAID, JO, US

SUBJECT: PRIME MINISTER'S REQUEST FOR INCREASED BUDGET SUPPORT.

REF: A. AMMAN 1087 B. AMMAN 5536, 10/16/73

C. AMMANN 0847

SUMMARY: PRIME MINISTER RIFA'I DOES NOT HAVE PERSUASIVE ECONOMIC CASE FOR RESUMPTION \$10 MILLION DROPPED FROM FY 1974 U.S. SUPPORTING ASSISTANCE LEVEL WE ORIGINALLY OFFERED TO JORDAN, HOWEVER, WE BELIEVE POLITICAL FACTORS ARE MORE IMPORTANT. WE HAVE IN MIND PARTICULARLY JORDANIAN CONFIDENCE IN CONTINUED U.S. SUPPORT AND DESIRE FOR FINANCIAL INSURANCE AS JORDAN GOES INTO FLUID AND DIFFICULT MIDEAST NEGOTIATIONS. WHILE RECOGNIZING WORLDWIDE PRESSURES ON SUPPORTING ASSISTANCE, WE THINK PROVIDING ADDITIONAL \$5-10 MILLION DURING KING'S VISIT WOULD HAVE SIGNIFICANT POSITIVE EFFECT ON MAINTAINING U.S. INFLUENCE ON JORDAN DURING COMING CRITICAL PERIOD. END SUMMARY.

1. WE DO NOT BELEIVE PM RIFA'I HAS A PERSUASIVE ECONOMIC ARGUMENT BASED ON CURRENT GOJ FINANCIAL PICUTE. OBVIOUSLY, RESTORATION OF \$39 MILLION ANNUAL KUWAITI SUBSIDY HAS HAD VERY BENEFICIAL EFFECT, ALTHOUGH IT HAS LARGELY BEEN ABSORBED BY RECENT \$25 MILLION CIVIL

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SERVICE AND MILITARY PAY RAISE AND ADDITIONAL COMMODITIES

SUBSIDY INCREASES THAT MAY BE REQUIRED FOR INTERNAL POLITICAL REASONS.

2. ON PM'S CONCERN OVER SIZE OF CY 1973 DEFICIT, IT IS IMPORTANT TO KEEP IN MIND THAT DEFICIT WAS ACTUALLY SMALLER AT END OF 1973 (9.2 MILLION JD'S REF C) THAN HAD BEEN PROJECTED IN ORIGINAL BUDGET AND WAS LESS THAN HALF THE MIND-BOGGLING LEVEL ESTIMATED LAST SEPTEMBER (21.5 MILLION JD'S, REF B). AS WE SEE IT, AND WITHIN CERTAIN LIMITS OF COURSE, SIZE OF DEFICIT AND CASH FLOW WOULD BE SERIOUS PROBLEMS ONLY IF GOJ WERE FORCED TO LIVE WITHIN STATUTORY LIMITATIONS ON CENTRAL BANK ADVANCES AND ISSUANCE OF TREASURY BILLS. GOJ HAS SHOWN WILLINGNESS TO GO WELL BEYOND THESE LIMITS WHEN NECESSARY TO MEET ITS FISCAL REQUIREMENTS AND HAS ALSO TRADITIONALLY JUGGLED ACCOUNTS IN ORDER TO MAINTAIN ADEQUATE FLOW OF RESOURCES INTERNALLY TO MEET GOVERNMENTAL REQUIREMENTS. (UNANTICIPATED WHEAT PURCHASE REQUIREMENT MENTIONED BY PM IN REF A WILL ALSO SOMEWHAT INCREASE SIZE OF BUDGET DEFICIT AND NEED FOR FURTHER JUGGLING.)

3. IF FOREIGN EXCHANGE RESERVES WERE LIMITED THIS TOO WOULD POSE PROBLEMS, BUT RESERVES ARE VERY HEALTHY (OVER \$300 MILLION). IN SUM, ALTHOUGH IT HAS FUNDAMENTAL LONG-TERM SHORTAGE OF FISCAL RESOURCES, GOJ CAN DEAL FINANCIALLY WITH SHORT TERM PROBLEMS CITED BY PM WITHOUT SUBSTANTIAL INCREASE IN U.S. ASSISTANCE IN NEXT SEVERAL MONTHS. REAL ISSUE IS, HOWEVER ESSENTIALLY POLITICAL IN NATURE.

4. FIRST, IN BILATERAL TERMS, THIS IS FIRST YEAR IN RECENT PAST THAT USG WOULD HAVE FAILED TO DELIVER ON SUPPORTING ASSISTANCE PLANNING LEVEL ORIGINALLY DISCUSSED WITH GOJ (FROM ORIGINAL FY 1974 \$65 MILLION TO CURRENT \$55 MILLION LEVEL). PM HAS BEEN BUDGETING ON THIS BASIS SINCE HE USED MOST OF RESUMED KUWAITI SUBSIDY TO TAKE CARE OF LONG-AWAITED AND POLITICIALLY DESIRABLE CIVILIAN AND ARMY PAY INCREASE (FIRST SINCE 1970). TO THAT EXTENT GOJ CAN ARGUE THAT KUWAITI SUBSIDY IS INSUFFICIENT JUSTIFICATION FOR REDUCTION IN U.S. AID

5. IN JORDANIAN POLITICAL TERMS, AS ZARQA MUTINY SHOWED, PAY ISSUE IS IN FOREFRONT OF POLITICAL AND INTERNAL SECURITY ISSUES. GOJ CAN ARGUE THAT PAY INCREASES WERE REQUIRED POLITICALLY TO
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MAINTAIN DOMESTIC TRANQUILITY IN PERIOD OF WORLDWIDE PRICE RISES AND WIDESPREAD JORDANIAN GRUMBLING ON ECONOMIC ISSUE. FURTHERMORE, GIVING JORDAN A FIGURE CLOSER TO THE ORIGINAL \$65 MILLION PROJECTED WOULD PROVIDE EXTRA FINANCIAL INSURANCE FOR FORTHCOMING CRITICAL PERIOD IN MIDEAST NEGOTIATIONS. FUTURE IS UNCERTAIN AND VAGARIES OF INTER-ARAB POLITICS NOT ONLY COULD CONCEIVABLY BRING CANCELLATION OF KUWAITI SUBSIDIES (PARTICULARLY ON PALESTINIAN ISSUE) BUT ALSO INCREASE GOJ FINANCIAL REQUIREMENTS TO MAINTAIN QUIESCENT DOMESTIC

SITUATION.

6. TO CITE SOME EXAMPLES, THERE IS A POTENTIAL PROBLEM WITH NON-UNRWA-SUBSIDIZED GOJ SUPPORT FOR REFUGEES. GOJ COSTS FOR 250,000 PALESTINIAN REFUGEES DISPLACED IN 1967 WAS HAVE RISEN FROM 1 1/2 MILLION JD'S IN 1967 TO 6 MILLION JD'S IN 1973 AND SHOW NO SIGN OF ABATING. MEANWHILE ANY JORDANIAN POLITICAL INITIATIVES ON WEST BANK WILL UNDOUBTEDLY COST MONEY, AS EVIDENCED BY ESTIMATED ANNUAL 1.5 MILLION JD COST OF RESUMING SALARY PAYMENTS FOR WEST BANK OFFICIALS. (TO SOME EXTENT GOJ WILL BE COMPETING FINANCIALLY WITH A HEAVILY SUBSIDIZED PLO IN WEST BANK.) THEREFORE, IN CONTEXT FINANCING POSSIBLE UNFORSEEN GOJ CHARGES IN COMING MONTHS RELATED TO BOTH INTERNAL STABILITY AND EXTERNAL EFFORTS IN MIDEAST CONTEXT, WE BELIEVE EFFORT TO FIND ADDITIONAL FUNDS IS JUSTIFIED.

7. IN FINAL ANALYSIS, CIRCUMSTANCES WHICH WILL UNFOLD DURING KING HUSSEIN'S UPCOMING VISIT WILL ALSO DETERMINE OUR DECISION. AS USUAL, KING COMES TO WASHINGTON WITH HIGH HOPES THAT U.S. PLANS TO STRENGTHEN RELATIONSHIP, WHICH RIGHTLY OR WRONGLY HE VIEWS PARTLY AS FUNCTION OF DOLLAR LEVELS. UNDOUBTEDLY ADDITIONAL SUBSIDY CAN BE PARLAYED BY U.S. HOWEVER OBLIQUELY, INTO ADDITIONAL INFLUENCE ON JORDAN IN PURSUIT OUR OBJECTIVES IN EVOLVING MIDEAST NEGOTIATIONS.

8. ON BALANCE WE BELIEVE ABOVE POLITICAL REASONS (ALTHOUGH NOT SIGNIFICANTLY SUPPORTED ECONOMICALLY) ARGUE FOR TRYING TO SQUEEZE ADDITIONAL \$5 MILLION OR \$10 MILLION IN SA FROM FY 1974. WORLDWIDE SA TURNIP, PARTICULARLY IF, AS WE EXPECT THEY WILL, JORDANIANS PERSIST IN PURSUING THEIR REQUEST IN WASHINGTON. PICKERING

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